



# Iowa General Assembly

## 2009 Committee Briefings

Legislative Services Agency – Legal Services Division

<http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=57>

### PUBLIC RETIREMENT SYSTEMS COMMITTEE

**Meeting Dates:** [November 19, 2009](#) | [November 9, 2009](#)

**Purpose.** *This compilation of briefings on legislative interim committee meetings and other meetings and topics of interest to the Iowa General Assembly, written by the Legal Services Division staff of the nonpartisan Legislative Services Agency, describes committee activities or topics. The briefings were originally distributed in the Iowa Legislative Interim Calendar and Briefing. Official minutes, reports, and other detailed information concerning the committee or topic addressed by a briefing can be obtained from the committee's Internet page listed above, from the Iowa General Assembly's Internet page at <http://www.legis.state.ia.us/>, or from the agency connected with the meeting or topic described.*

### PUBLIC RETIREMENT SYSTEMS COMMITTEE

November 19, 2009

**Co-chairperson:** Senator John P. (Jack) Kibbie

**Co-chairperson:** Representative Mary Mascher

**OVERVIEW.** The Public Retirement Systems Committee received testimony from the Municipal Fire and Police Retirement System of Iowa (MFPRSI), organizations and individuals concerned with that retirement system, and follow-up presentations from the November 9 meeting concerning the major public retirement systems in the state. The Committee recommended that a proposed interim committee bill be drafted which would be examined at a subsequent meeting of the Committee during the 2010 Legislative Session.

#### MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI)

**MFPRSI Staff.** Dennis Jacobs, MFPRSI Executive Director, and Donn Jones and Glenn Gahan, Consulting Actuaries, provided background information concerning the retirement system. Mr. Jacobs noted that the fund lost 21.8 percent in value during FY2008-2009. According to the most recent actuarial valuation of the system for that fiscal year, the funded status of the system based upon the market value of assets is 72 percent. Just two years ago, the funded ratio was around 107 percent, highlighting the impact of last year's significant drop in the market. In addition, based on this actuarial valuation, the required contribution rate from cities beginning FY 2010-2011 will be 19.9 percent. Mr. Gahan then discussed future trends in the actuarial contribution rate, noting that the cities' contribution rate under a variety of asset return scenarios will likely rise to at least 35 percent of payroll over the next several years.

**Iowa League of Cities.** The league expressed its concern over the impact of increasing the required contributions from the cities to MFPRSI in the future. The league proposed moving towards a split of the total required contribution rate to the system of 60 percent employer and 40 percent employee. The league also opposes any benefit enhancements to the system.

**Iowa State Police Association.** The association expressed concern over the increasing use of overtime and noted that the system does not recognize overtime in calculating benefits under the system.

**Iowa Professional Firefighters.** The association believes the system is working as designed and does not recommend any benefit enhancements at this time.

#### COMMITTEE RECOMMENDATIONS:

The Committee recommended that a study bill be drafted for review by the Committee which would include the following provisions:

#### IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEM (IPERS)

1. Create a bona fide retirement exception for members called to state active duty with the National Guard.
2. Extend the bona fide retirement exception for licensed health care professionals for two years.

3. Increase the total contribution rate for IPERS regular service to 13.45 percent beginning July 1, 2011, and allow the system to adjust the rate either up or down by no more than one percentage point per year for all employee classifications under IPERS.
4. Increase the vesting requirement from four to seven years.
5. Calculate retirement benefits using a member's high five years of salary instead of the current high three years.
6. Implement a 6 percent per year reduction in retirement benefits for each year a member retires and receives a retirement allowance prior to age 65 if at the time the member retires the member does not meet the rule of 88 or is not at least 62 years of age with at least 20 years of service.
7. Extend the current purchase of wage credit rules relative to furloughs for IPERS members for an additional year and allow the rules to apply to union bumping rights.

#### **MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM (MFPRSI)**

1. Annually increase the employee contribution rate by 0.5 percentage points for four years beginning July 1, 2010.
2. Adopt the proposed technical statutory changes approved by the MFPRSI board concerning the definition of surviving spouse, knowledge of preexisting conditions, ordinary death benefit elections, rollovers by nonspouse beneficiaries, and compliance with federal military service provisions.
3. Phase out and eventually eliminate the state's contribution to MFPRSI.
4. Beginning July 1, 2010, provide that overtime pay is considered earnable compensation for purposes of MFPRSI.
5. Direct the MFPRSI board to provide specific benefit and other technical statutory changes to the Public Retirement Systems Committee.

#### **PEACE OFFICERS RETIREMENT SYSTEM (PORS)**

1. Annually increase the employee contribution rate by 0.5 percentage points for four years beginning July 1, 2010.
2. Adopt the proposed technical statutory changes approved by the PORS board concerning temporary incapacity, disability retirement documentation, purchase of permissive service, calculation of ordinary disability allowance, reemployment after disability, contributions by the state, and hospitalization and medical attention.
3. Beginning July 1, 2010, provide that overtime pay is considered earnable compensation for purposes of PORS.
4. Direct the PORS board to provide specific benefit and other technical statutory changes to the Public Retirement Systems Committee.

**Next Meeting.** The Committee intends to meet during the 2010 Legislative Session to consider the proposed interim committee bill.

**LSA Contacts:** Ed Cook, Legal Services, (515) 281-3994; Susan Crowley, Legal Services, (515) 281-3430; Jennifer Acton, Fiscal Services, (515) 281-7846.

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#### **PUBLIC RETIREMENT SYSTEMS COMMITTEE**

November 9, 2009

**Co-chairperson:** Senator John P. (Jack) Kibbie

**Co-chairperson:** Representative Mary Mascher

**Overview.** The Public Retirement Systems Committee received testimony from various organizations and individuals concerned with the major public retirement systems in the state. This briefing includes a summary of the proposals and recommendations made by various presenters to the Committee.

#### **PEACE OFFICERS' RETIREMENT SYSTEM (PORS)**

**PORS Staff.** David Heuton, PORS Director of Administrative Services, and Patrice Beckham, actuary for the system, provided background on the system. Based upon the July 1, 2009, actuarial valuation of the system, the required contribution rate should be 44.53 percent and the unfunded liability of the system is about \$133 million. However, the state contribution rate beginning July 1, 2010, will be 23 percent. Because the system does not recognize all of the

losses in the asset value of the system in one year, additional losses incurred during FY 2008-2009 of almost \$67 million have yet to be recognized. As a result, the funded ratio of assets to liabilities for PORS is 69 percent using the actuarial valuation of assets and only 54 percent using the market valuation of assets. Based upon the current statutory contribution rate, the funded ratio will decline and the actuarial contribution rate will increase, heightening concerns over the long-term funding and sustainability of the system.

**State Police Officers Council and the Iowa State Patrol Supervisors' Association.** The associations acknowledged the gravity of the funding status of PORS, noting that the state has failed to pay the full actuarial contribution rate to the system for several years, and indicating a willingness to work with policymakers to address the funding issues of PORS.

## **JUDICIAL RETIREMENT SYSTEM**

**Overview.** David Boyd, State Court Administrator; Peggy Sullivan, Director of Finance and Personnel; and Ms. Beckham provided background on the retirement system. Based upon the July 1, 2009, actuarial valuation of the system, the unfunded liability of the system is about \$58 million. However, because the system utilizes a smoothing method in determining the actuarial value of assets, additional losses incurred during FY 2008-2009 of almost \$21.3 million have yet to be recognized. As a result, the funded ratio of assets to liabilities for the system is 61.6 percent using the actuarial valuation of assets and only 52.5 percent using the market valuation of assets. While the actuarially required state contribution should be 30.8 percent of payroll, the statutory state contribution rate is set at 30.6 percent. Still, based upon the deferred losses yet to be recognized, the actuarial contribution rate is expected to increase in future years to around 40 percent of pay.

## **IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)**

**IPERS Staff.** Donna Mueller, Chief Executive Officer, and Ms. Beckham provided an overview of the retirement system and described the general financial condition of the system. While a gradual increase in contribution rates beginning in July 1, 2007, began to address the unfunded liability of the system, the system still had an unfunded actuarial liability of \$2.6 billion as of July 1, 2008. However, as a result of the global recession and a 16.27 percent loss in assets during FY 2008-2009, the unfunded actuarial liability has grown to almost \$4.9 billion with additional market losses yet to be recognized. Because market returns in the future are unlikely to bridge the funding gap, changes in the contributions to IPERS as well as the benefit structure must be considered. As to contributions, the current planned statutory increases will not be enough. As to benefits, the biggest cost drivers are when one can retire, the retirement age, at what amount, and the applicable benefit multiplier. IPERS then noted that the system's proposed policy legislation for the 2010 Session would include the following:

- Create a bona fide retirement exception for members called to state active duty with the National Guard.
- Extend the bona fide retirement exception for licensed health care professionals for one year.

**IPERS Benefit Advisory Committee (BAC).** BAC recommends the following to take effect July 1, 2012, except as noted:

- Increase the total contribution rate to 13.45 percent beginning July 1, 2011, and allow the system to adjust the rate either up or down by no more than one percentage point per year.
- Implement a seven year vesting requirement instead of the current four years.
- Calculate retirement benefits using a member's high five years of salary instead of the current three years.
- Implement a 6 percent per year reduction in retirement benefits for each year a member retires and receives a retirement allowance prior to age 65 if at the time the member retires the member does not meet the rule of 88 or is at least 62 years of age with at least 20 years of service.
- Extend the current purchase of wage credit rules relative to furloughs for IPERS members for an additional year and allow the rules to apply to union bumping rights.

**Iowa League of Cities.** The League believes the BAC recommendation to increase the total contribution rate to 13.45 percent on July 1, 2011, from 11.45 percent for the previous year is excessive. Consideration should be given to reducing the current 2 percent multiplier for each year of service up to 30 years to 1.9 percent or 1.8 percent.

**Iowa Hospital Association.** Extend the sunset of the shortened retirement waiting period for licensed health care professionals for two years, instead of the one year proposed by IPERS.

**School Administrators of Iowa.** Change the formula multiplier to two percent for each year of employment for all regular members regardless of the number of years of service.

**Iowa State Education Association (ISEA).** The association supports legislation allowing the purchase of service for that period of time a teacher takes a leave of absence to serve as president of ISEA by paying the contributions that otherwise would have been paid for that period of service. ISEA also supports the establishment of an independent board of trustees for IPERS.

**Next Meeting.** The next meeting is scheduled for Thursday, November 19, 2009, in Room 103 of the State Capitol. The Committee will receive testimony concerning the Municipal Fire and Police Retirement System and discuss various proposals concerning public retirement issues.

*LSA Contacts:* Ed Cook, Legal Services, (515) 281-3994; Susan Crowley, Legal Services, (515) 281-3430; Jennifer Acton, Fiscal Services, (515) 281-7846.

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